

The Extent of Sri Lanka's Unfair Competition Law in Safeguarding Intellectual Property Rights and the Way Forward

Wijayalath W. A. S. P¹ and Rajasinghe W. K²

¹MICLaw (The University of Queensland, Australia-In campus), LLM (General Sir John Kotelawala Defence University Sri Lanka), Bsc. (Wayamba University of Sri Lanka), Legal officer, Department of Legal Affairs, Ministry of Finance, Planning and Economic Development, Attorney at Law, Notary Public, Company Secretary, Commissioner for Oaths in Sri Lanka.

²LLM (University of Dundee-In campus), LLB (University of London), State Counsel in Attorney General's Department, Attorney at Law, Notary Public, Company Secretary, Commissioner for Oaths in Sri Lanka .

DOI: <https://dx.doi.org/10.47772/IJRISS.2025.9010090>

Received: 31 December 2024; Accepted: 04 January 2025; Published: 03 February 2025

ABSTRACT

This research examines the scope of Sri Lanka's unfair competition law in protecting intellectual property rights and offers recommendations to address existing issues for its effective implementation. The legal framework for protection against unfair competition was first introduced through the Code of Intellectual Property Act No. 52 of 1979. Following its commitment as a signatory to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) of 1994, Sri Lanka enacted the Intellectual Property Act No. 36 of 2003, ensuring full compliance with TRIPS guidelines. Understanding the scope of unfair competition law in protecting intellectual property rights in Sri Lanka is essential for the effective implementation of the Intellectual Property Act No. 36 of 2003. The recommendations presented in this research address the challenges faced by Sri Lanka's unfair competition law regime.

INTRODUCTION

Unfair competition law protects consumers and businesses from deceptive practices, such as trademark infringements, trade defamation, and misappropriation of trade secrets. Examples include false advertising, and misrepresentation of products or services. The Paris Convention for the Protection of Industrial Property includes provisions for unfair competition protection (Karunaratna, 2010). The legal framework in Sri Lanka is derived from the WIPO Model Provisions on Protection against Unfair Competition, which was introduced through the Code of Intellectual Property Act No. 52 of 1979 (Abeysekara, 2013). The law focuses on unfair competition as defined under Intellectual Property Law, excluding economic harms involving monopolies and antitrust legislation. The law primarily applies to Sri Lanka's Intellectual Property law framework.

RESEARCH METHODOLOGY

Legal research methodology involves systematic techniques for analyzing legal frameworks and addressing specific legal issues. This study employed a qualitative approach to examine the legal framework governing unfair competition in Sri Lanka, focusing on intellectual property rights (Mitchell, 2023). It analyzed primary sources like statutes, conventions, and case law, including the Code of Intellectual Property Act (1979), the Intellectual Property Act (2003), and international agreements such as the Paris Convention and TRIPS. Secondary sources, including journals, reports, and articles, were reviewed for broader insights. Comparative analysis of laws from the U.S. and India enhanced understanding. The research also utilized electronic databases and online resources to access relevant articles and journals on the topic. The research systematically evaluated the strengths and challenges of existing legal provisions. This comprehensive methodology ensured an in-depth understanding of the subject while addressing the key issues in the implementation of unfair competition law in Sri Lanka.

THE DEFINITION OF LAW ON UNFAIR COMPETITION

Part VIII Chapter XXXII of the Intellectual Property Act No. 36 of 2003 defines unfair competition in Sri Lanka. "Unfair competition means any act or practice carried out in the course of industrial or commercial activities that is contrary to honest practices shall constitute an act of unfair competition. The provisions of this section shall apply to, protect inventions, industrial designs, marks, trade names, literary, scientific and artistic works and other intellectual property." "There is no complete list of the activities which constitute an act of unfair competition. The general principle is that commercial unfairness will be restrained when it appears that there has been an appropriation, for the commercial advantage of one person, of a benefit or property right belonging to another" (Karunarathna, 2006). "This branch of the law originated in the conscience, justice and equity of common-law judges. It is a persuasive example of the law's capacity for growth in response to the ethical, as well as the economic needs of society. As a result of this background, the legal concept of unfair competition has evolved as a broad and flexible doctrine with a capacity for further growth to meet changing conditions" (Dior V. Milton (1956). Unfair competition is an extension of the doctrine of passing off, or, possibly, is a new and independent cause of action."^[i] "It was held that passing off was the species and unfair competition was the genus"(International News Services V. Associated Press (1918).

THE DEVELOPMENT OF UNFAIR COMPETITION LAW IN SRI LANKA

The history of unfair competition law in Sri Lanka dates back to the court system, with the concept of unfair competition originating in France. The first provisions of unfair competition law in Sri Lanka were Section 142 of the Code of Intellectual Property Act No. 52 of 1979, which was enacted to comply with the WIPO Model Law for developing countries. Sri Lanka is a signatory to the TRIPS Agreement, making Intellectual Property Act No. 36 of 2003 fully compliant with the TRIPS Agreement.

The development of unfair competition law should be in line with the economic needs of society. The concept of unfair competition originated in France and has evolved across different jurisdictions over time (World Intellectual Property Organisation, 1994). The Paris Convention introduced unfair competition law in 1900 to protect unfair use of industrial property (Abeysekara, 2011). The law prohibits acts that create confusion with competitors' goods, false allegations in trade, and indications or allegations that mislead the public about the nature, manufacturing process, characteristics, suitability for their purpose, or quantity of goods.

In unfair competition cases, the court finds an element of fraud or inequitable conduct on the part of the defendant. Intention, knowledge or any other similar element on the part of the defendant is not required for liability. In such cases, the liability arises simply from the performance of the act (Karunarathne, 2010). The protection against unfair competition under Section 160 of the IP Act operates independently of other provisions that protect inventions, industrial designs, trademarks, trade names, literary, scientific, and artistic works, along with other forms of intellectual property.

SPECIFIED ACTS OR PRACTICES CONSTITUTING UNFAIR COMPETITION

Section 160 (2), (3), (4), (5) and (6) of the IP Act identifies specific acts that constitute unfair competition, including causing confusion, damaging goodwill or reputation, being misleading, discrediting, and disclosing undisclosed information, all of which are explained in detail below.

Confusion

"In terms of section 160(2)(a) of the IP Act, if a particular act of competition causes confusion with respect of the products offered by another enterprise, then that particular act amounts to an act of unfair competition."^[ii] Most of cases in Sri Lanka have been filed under that category. It was held that in order to determine the existence of unfair competition, it would not be adequate only the form in which the propounded mark is applied for, but a consideration of the actual use of that mark becomes necessary. Confusion may arise due to the class of persons, the level of education, and intelligence of the people who consume the product. However the ordinary purchaser who should be taken into account in the determination of the issue whether the act or practice complained of has caused confusion (Lipton Ltd v Stassen Exports Ltd.). Confusion can simply arise from a

particular act or practice regardless of the absence of a mental element such as intention or knowledge on the part of the defendant (*Parker-Knoll vs Knoll International*, 1962). The court held that the Defendant's unregistered "Sweeties" trademark, which closely resembled the Plaintiff's registered "Smarties" trademark in both visual appearance and phonetic sound, could cause confusion among consumers (*Societe Des Produits Nestle S. A Vs. Multitech Lanka (Pvt) Limited* 1999). The court held that while the visual similarity between the marks "Berlei" and "Bali" was minimal, their phonetic similarity was significant enough to cause potential confusion in pronunciation (*Berlei U.K. Ltd. v. Bali Brassiere Co Incorporated*, 1962).

Goodwill or reputation

" In terms of section 160(3) (a) of the IP Act, Goodwill or reputation means that any act or practice carried out or engaged in, in the course of industrial or commercial activities, that damages, or is likely to damage, the goodwill or reputation of another's enterprise shall constitute an act of unfair competition." Damaging goodwill or reputation may, in particular, result from the dilution of the goodwill or reputation (*Karunaratna*, 2020, p330). Dilution of goodwill can result from using a trademark for goods or services unrelated to the mark. [\[iii\]](#) In a case involving a defendant selling a beverage called Keelings Old English Advocaat, Lord Diplock ruled that the defendant's actions were unfair and dishonest. The court found that the defendant's sale of "Keelings Old English Advocaat" alongside the plaintiff's distinctive "Avdocaat" beverage constituted unfair and potentially dishonest trading, for which the law should provide a remedy to protect other traders' businesses and goodwill (*Erven Warnick Besloten Veroots Chap and another v. Townsend and son*, 1979).

Misleading

Misleading is a recognized act under the law of unfair competition, as defined by Article 10 bis (3)(3) of the Paris Convention. Section 160(4)(a) of the IP Act states that any act or practice that misleads the public about the products or services offered by an enterprise constitutes an act of unfair competition.

In a case involving a soap manufacturer, the accused resigned and began manufacturing his own soap under the name "Menika," which was found to be slightly different in color and pronunciation. Misleading can occur in various ways, such as the manufacturing process, suitability for a particular purpose, quality or quantity, geographical indication, conditions on products or services, and price. The concept of "misleading" pertains to the enterprise itself, including its activities and products or services (*Leelananda Vs Earnest De Silva* (1990).

Discrediting

The term 'discrediting' was introduced into the Intellectual Property Act under Section 160(5) (a) due to the influence of Article 10 bis (3)(2) of the Paris Convention. Discrediting refers to false allegations to discredit a competitor's establishment, goods, or industrial activities. It can occur in various aspects such as manufacturing processes, product suitability, quality, and pricing. It can also occur under comparative advertising, where a competitor is mentioned by name to demonstrate inferiority. [\[iv\]](#)

Undisclosed Information

Sri Lanka introduced Section 160(6) of the IP Act to extend statutory protection to undisclosed information (*Hently Garments Ltd. v. J. S. A. Fernando* 1980). This new area of law covers various instances of disclosure, acquisition, or use of undisclosed information by unauthorized persons. Under Article 39 of the TRIPS Agreement, member countries must protect undisclosed information by introducing regulations to their prevailing laws. Unfair competition can result from the disclosure, acquisition, or use of undisclosed information without the consent of the person in control of that information. Examples of such acts include industrial or commercial espionage, breach of contract, breach of confidence, and inducement to commit such acts. Employees with trade secrets who are under contract not to disclose the secret are restrained from divulging or using it to their employer. Employers cannot prevent ex-employees from competing or using their knowledge, skill, and experience gained during employment. Restraints against employees are justifiable if they aim to prevent the exploitation of trade secrets learned during their employment. "An employer has to prove definitely that the servant has acquired substantial knowledge of some secret process or mode of manufacture used in the course of his business. Even the general knowledge derived from secret information which has taught an

employee how best to solve particular problems as they arise may be a proper subject-matter of protection" (Commercial Plastics Ltd. v. Vincent, 1964).

Factors considered in determining the existence of a trade secret include the extent of knowledge by employees, the extent of knowledge outside the business, measures taken by the employer to guard the secrecy, the value of the information to the employer and competitors, and the difficulty of acquisition or duplication.

LEGAL MECHANISM FOR THE ENFORCEMENT OF THE UNFAIR COMPETITION LAW IN SRI LANKA

In Sri Lanka, the Intellectual Property Act No. 36 of 2003 provides protection against acts of unfair competition through civil remedies and criminal sanctions. The High Court established for the Western Province (Commercial High Court of the Western Province) Holden at Colombo has the exclusive jurisdiction over civil cases under the Intellectual Property Act No. 36 of 2003 (Section 2 of the High Court of Provinces (Special Provisions) Act No. 10 of 1996). The owner of protected rights can seek injunctions, damages, and other relief as the Court deems just and equitable. "The proper remedy, and sometimes the sole remedy, for unfair competition is the permanent injunction."

Criminal Sanctions in Sri Lanka

Under the IP Act in Sri Lanka, unfair competition is a criminal offense, with the Magistrate having the power to order fines, imprisonment, or both, following the Code of Criminal Procedure Act No. 15 of 1979 and the Evidence Ordinance.

Other statutes in Sri Lanka that contain provisions against unfair competition

The Consumer Affairs Authority Act No. 09 of 2003 is designed to protect consumers and traders from unfair trade practices. It covers both goods and services and aims to protect consumers against unfair trade practices. Sections 125A and 125B of the Customs Ordinance prohibit the exportation and importation of goods in violation of intellectual property rights.

Global Legal Frameworks

Article 10bis of the Paris Convention for the Protection of Industrial Property requires member states to prevent acts of unfair competition, including misleading practices and the unauthorized exploitation of goodwill. The TRIPS Agreement (1994) obligates World Trade Organization members to address unfair competition as part of trademark and trade secret protection. Countries such as the USA, UK, EU, and Australia have standalone laws or provisions within their national legislation under trademark, consumer protection, and competition laws. For example, in the United States, the Lanham Act (1946) includes provisions on false advertising and trademark dilution. In the European Union, directives such as the Unfair Commercial Practices Directive and the Trade Secrets Directive address unfair competition.

Global Enforcement Mechanism

Courts in developed jurisdictions actively interpret and apply unfair competition laws through judicial enforcement. Countries such as the USA and EU have dedicated administrative agencies or bodies to handle competition law violations. International dispute resolution mechanisms under the WTO and WIPO address disputes arising from unfair competition.

STRENGTH AND WEAKNESSES OF THE LAW ON UNFAIR COMPETITION IN SRI LANKA

Strength

The Intellectual Property Act No. 36 of 2003 introduced new areas, such as undisclosed information and geographical indications, to comply with the TRIPS Agreement. As a result, both undisclosed information and

geographical indications can receive protection under the law of unfair competition.

Software, as an expression of an idea, is protected under copyright according to Section 6(1) of the IP Act. Therefore, the unfair use of computer programs (software) can be controlled through these provisions.

Section 104(1)(e) of the IP Act denies the registration of a mark that infringes on any third-party rights or is contrary to provisions related to unfair competition. As a result, the law protecting against unfair competition provides an active mechanism for safeguarding unregistered marks and associated interests.

The English tort of passing off in common law is also an instrument for protecting against unfair competition. Although English law has not recognized 'unfair competition' as a separate branch of law, Sri Lanka has a distinct legal mechanism for protecting against acts of unfair competition.

The law of unfair competition serves five purposes: (1) protect economic, intellectual, and creative investments made by businesses; (2) preserve goodwill established with consumers; (3) deter businesses from appropriating competitors' goodwill; (4) promote clarity and stability by encouraging consumers to rely on a merchant's reputation when evaluating rival products; and (5) increase competition by providing incentives to offer better goods and services. [v] Sri Lanka has the potential to achieve these purposes after the introduction of section 160 of the IP Act.

Weaknesses and addressing weaknesses

The unfair competition law in Sri Lanka has several weaknesses, including the lack of jurisdiction (*Stassen Exports Limited Vs. Hebtulabhoy & Co. Ltd.*, 1984) for acts carried out outside the country, an ineffective enforcement procedure, and limited remedies for consumers. To address these issues, the law should be continuously developed and updated to suit the needs of society. Institutions should be established to supervise unfair competition and anticompetitive conducts, including monopolization and agreements between competitors. Industries with high consumer impact should be protected through various mechanisms. Information on competition issues should be provided to consumers, business entrepreneurs, and policymakers through conferences and workshops. Independent authorities or commissions should be established to prohibit unfair methods of competition, and non-profit education, research, and advocacy organizations should focus on studying competition law, antitrust law, intellectual property law, and unfair competition at national and international levels. The scope of the unfair competition law should be wider, including the production and distribution of imitated products without patent owner authorization and the production and distribution of pirated copies of copyrighted works. A regulatory body should be established to prevent counterfeit goods entering Sri Lanka and the law of passing off should be formed to protect traders and prevent commercial dishonesty.

RECOMMENDATIONS

This research proposes several recommendations to enhance the law of unfair competition in Sri Lanka.

The rapid development of telecommunication technology in Sri Lanka has led to the exchange of unfair commercial information through mobile phones, making it crucial to regulate the system closely. Most developed jurisdictions have enacted legislation to prevent IT-related unfair competition. This includes laws against manufacturers using stolen or misappropriated software and those selling products through illegal IT methods. By drawing on relevant legislation from developed jurisdictions, Sri Lanka should establish an efficient regulatory body with skilled personnel to resolve disputes and introduce new provisions to prohibit the illegal exchange of information.

The state of Illinois in the United States has the Consumer Fraud and Deceptive Business Practices Act and a Uniform Deceptive Trade Practices Act, under which claims for unfair trade practices can be filed. Similarly, new legislation should be introduced to prohibit deceptive trade practices and allow consumers to recover damages. Furthermore, under the Deceptive Trade Practices and Consumer Protection Act of Texas, a consumer who has suffered economic damages or mental anguish as a result of a false, misleading, or deceptive business practice may recover damages.

Competition is now recognized as the most effective means of ensuring that consumers have access to a wide range of services at competitive prices, while promoting allocative and productive efficiency. However, acts of unfair competition should be controlled under the broader concept of 'anti-competition.' The Australian Competition and Consumer Commission (ACCC) promotes competition and fair trade in the marketplace to benefit consumers, businesses, and the community. Similarly, India enacted the Competition Act in 2002, aiming to establish a commission to prevent anti-competitive practices, promote and sustain competition, protect the interests of consumers, and ensure freedom of trade in Indian markets. Likewise, Sri Lanka could establish an Unfair Competition Protection Authority or an Antitrust Institute to ensure fair trading and the protection of consumers.

Introducing novel features from unfair competition laws in developed jurisdictions through amendments to the Intellectual Property Act No. 36 of 2003 or the introduction of new legislation titled 'An Act Against Unfair Competition,' along with a comprehensive Code of Conduct, would provide robust measures to combat acts of unfair competition in Sri Lanka. Law enforcement authorities should be well-educated in intellectual property rights and acts of unfair competition, with specialized officers trained to investigate and prevent such acts. Additionally, public awareness programs should be organized to empower consumers to act against unfair competition.

CONCLUSION

Competition creates incentives for businesses to earn customer loyalty by offering quality goods at reasonable prices. At the same time, competition can also inflict harm. The law of unfair competition will not penalize a business merely for being successful in the marketplace. Accordingly, the law prohibits a business from unfairly profiting at a competitor's expense. What constitutes unfair competition varies according to the cause of action asserted in each case. The law of unfair competition in Sri Lanka is stronger than other countries and has the potential to develop with rapid economic and international changes.

BIBLIOGRAPHY

1. Abeysekara, T. B. (2011). The Legality of Copyright and Its Expansion in Times of Yore. BLJ, 43, 91.
2. Abeysekara, T. B. (2013). A Proposal for the Protection of Digital Databases in Sri Lanka. University of Exeter (United Kingdom).
3. Berlei U.K. Ltd. v. Bali Brassiere Co Incorporated - [1962] 2 All E.R. 812.
4. Commercial Plastics Ltd. v. Vincent (1964) 3 AER 546.
5. Dior V. Milton (1956) USPO 563, 566.
6. Erven Warnick Besloten Veroots Chap and another v. Townsend and son- [1979] - A.C. 731.
7. International News Services V. Associated Press (1918) 248 US 215.
8. Hexagon Pvt Ltd. v Australian Broadcasting Commission (1975) ALR 233.
9. Hently Garments Ltd. v. J. S. A. Fernando (1980) 1 SriLR 145.
10. Karunaratna, D.M. Elements of the Law of Intellectual Property in Sri Lanka, Sarasavi Publishers, (2010).
11. Karunaratna, D.M. An Introduction to the Law of Copyright and Related Rights in Sri Lanka, Ratmalana: Sarvodaya Vishva Lekha, (2006).
12. Leelananda Vs Earnest De Silva (1990) 2 SLR 237
13. Lipton Ltd v Stassen Exports Ltd. CA 602/92 (F)
14. Mitchell, M. (2023). Analyzing the law qualitatively. Qualitative research journal, 23(1), 102-113.
15. Parker-Knoll vs Knoll International (1962) RPC 265-273-74.
16. Societe Des Produits Nestle S. A Vs. Multitech Lanka (Pvt) Limited (1999) 2 SLLR 298[SMARTIES-SWEETIES CASE]
17. Stassen Exports Limited Vs. Hebtulabhoy & Co. Ltd.(1984) 1 SLR 129.
18. World Intellectual Property Organisation (Ed.), WIPO Publication No. 725 (E), Geneva: WIPO,1994.